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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Examination Of The U.S. Bureau Of Engraving And Printing's Financial Statements For The Year Ended September 30, 1983

ORIGINAL

COMPLETED

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GAO examined the financial statements of the Bureau of Engraving and Printing for the year ended September 30, 1983. The examination was made in accordance with generally accepted government auditing standards.

In GAO's opinion, the financial statements present fairly the financial position of the Bureau as of September 30, 1983, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles.

GAO/AFMD-84-56
JULY 20, 1984

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-114801

To the President of the Senate and the
Speaker of the House of Representatives

This report presents our opinion on the Bureau of Engraving and Printing's financial statements for the year ended September 30, 1983. We made our examination pursuant to the provisions of 31 U.S.C. 3523 and in accordance with generally accepted government auditing standards.

The Bureau of Engraving and Printing, Department of the Treasury, is the United States Government's security printer. In accomplishing its mission under the authorities conferred by the act of July 11, 1862 (12 Stat. 532) and other legislation, the Bureau designs, engraves, and prints all paper currency; postage stamps; Treasury bonds, notes, and certificates; and revenue and certain customs stamps.

We are sending copies of this report to the Director of the Office of Management and Budget, the Secretary of the Treasury, and the Director of the Bureau of Engraving and Printing.

Charles A. Bowsher

Comptroller General
of the United States

I

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-114801

To the Director
Bureau of Engraving and Printing
Department of the Treasury

We have examined the comparative statement of financial position of the Bureau of Engraving and Printing as of September 30, 1983, and the related comparative statements of operations and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Bureau of Engraving and Printing as of September 30, 1983, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. The financial statements of the Bureau of Engraving and Printing for the year ended September 30, 1982, were not audited by us and, accordingly, we do not express an opinion on them.

Charles A. Bowsher
Comptroller General
of the United States

II

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APPENDIX		Page
I	Report on Internal Accounting Controls	1
II	Report on Compliance with Laws and Regulations	3
III	Bureau of Engraving and Printing's Financial Statements	
	Comparative Statement of Financial Position	4
	Comparative Statement of Operations	5
	Comparative Statement of Changes in Financial Position	6
	Notes to Financial Statements	7

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APPENDIX I

REPORT ON INTERNAL ACCOUNTING CONTROLS

As part of our examination of the Bureau of Engraving and Printing's financial statements for the year ended September 30, 1983, we made a study and evaluation of the system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted government auditing standards. For the purpose of this report, we have classified the significant internal accounting controls in the following categories:

--conversion,

--expenditure,

--financial reporting,

--payroll, and

--revenue.

Our study and evaluation was limited to a preliminary review of the system of internal accounting control to obtain an understanding of the control environment and the flow of transactions through the accounting system. Because it was more efficient to expand substantive audit tests, our study and evaluation of the internal accounting controls did not extend beyond this preliminary review phase.

The management of the Bureau of Engraving and Printing is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is

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subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the Bureau of Engraving and Printing taken as a whole or on any of the categories of controls identified in the first paragraph. However, our study and evaluation disclosed no condition that we believed to be a material weakness.

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APPENDIX II

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

We have examined the financial statements of the Bureau of Engraving and Printing for the year ended September 30, 1983. Our examination was made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures, including tests of compliance with laws and regulations, as we considered necessary in the circumstances.

In our opinion, the Bureau of Engraving and Printing complied with the terms and provisions of laws and regulations for the transactions tested that could have materially affected the Bureau's financial statements.

Nothing came to our attention in connection with our examination that caused us to believe that the Bureau was not in compliance with the terms and provisions of laws and regulations for those transactions not tested.

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APPENDIX III

BUREAU OF ENGRAVING AND PRINTING
COMPARATIVE STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 1983 AND 1982
(IN THOUSANDS)

ASSETS

	1983		1982 (UNAUDITED)	
CURRENT ASSETS:				
Cash with the U. S. Treasury	$ 40,201		$ 28,548	
Imprest Funds	67		67	
Accounts Receivable (Note 5)	16,449		12,550	
Inventories (Note 6)	34,488		37,126	
Prepaid Expenses	295		495	
Total Current Assets		$ 91,500		$ 78,786
FIXED ASSETS: (Note 7)				
Plant and Equipment	85,865		77,478	
Less Accumulated Depreciation	46,932		43,323	
Net Plant and Equipment	38,933		34,155	
Construction in Progress	22,980		11,808	
Total Fixed Assets		61,913		45,963
OTHER ASSETS (Note 8)		5,622		8,396
Total Assets		$159,035		$133,145

LIABILITIES AND INVESTMENT OF THE U.S. GOVERNMENT

CURRENT LIABILITIES:				
Accounts Payable	$ 5,266		$ 4,314	
Accrued Liabilities (Note 9)	16,978		12,863	
Advances (Note 10)	595		642	
Total Current Liabilities		$ 22,839		$ 17,819
INVESTMENT OF THE U. S. GOVERNMENT:				
Invested Capital	32,295		32,295	
Cumulative Results of Operations	103,901		83,031	
Total Investment of the U. S. Government		136,196		115,326
Total Liabilities and Investment of the U. S. Government		$159,035		$133,145

The accompanying notes are an integral part of these financial statements.

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APPENDIX III

BUREAU OF ENGRAVING AND PRINTING
COMPARATIVE STATEMENT OF OPERATIONS
FOR THE YEARS ENDED SEPTEMBER 30, 1983 AND 1982
(IN THOUSANDS)

	1983		1982 (UNAUDITED)	
REVENUE FROM SALES		$166,476		$143,810
COST OF GOODS SOLD (Note 11)		128,046		117,473
Gross Profit From Operations		38,430		26,337
OPERATING COSTS				
General and Administrative Costs (Note 12)	$12,289		$11,505	
Research and Development Costs (Note 8)	5,750	18,039	2,324	13,829
Operating Income		20,391		12,508
OTHER INCOME - NET (Note 13)		479		1,166
Net Income		$ 20,870		$ 13,674
CHANGE IN CUMULATIVE RESULTS OF OPERATIONS				
Balance at Beginning of Fiscal Year As Previously Reported		$ 83,031		$ 70,531
Prior Period Adjustment (Note 4)		-		(1,174)
As Restated		-		69,357
Net Income		20,870		13,674
Balance at End of Fiscal Year		$103,901		$ 83,031

The accompanying notes are an integral part of these financial statements.

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APPENDIX III

BUREAU OF ENGRAVING AND PRINTING
COMPARATIVE STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 1983 AND 1982
(IN THOUSANDS)

	1983	1982 (UNAUDITED)
FUNDS PROVIDED:		
From Operations:		
Net Income	$ 20,870	$ 13,674
Charges To Operations Not Requiring Use of Working Capital:		
Depreciation and Amortization	7,066	5,800
Disposal of Fixed Assets	62	49
Disposal of Experimental Equipment (Note 8)	1,887	-0-
Total Funds Provided	29,885	19,523
FUNDS APPLIED:		
Additions to Plant and Equipment	22,191	16,331
Prior Period Adjustment (Note 4)	- 0 -	1,174
Total Funds Applied	22,191	17,505
Increase in Working Capital	$ 7,694	$ 2,018
CHANGES IN WORKING CAPITAL:		
Increase (Decrease) in Current Assets:		
Cash	$ 11,653	$ 717
Accounts Receivable	3,899	(7,077)
Inventories	(2,638)	9,628
Prepaid Expenses	(200)	(24)
	12,714	3,244
Increase (Decrease) in Current Liabilities:		
Accounts Payable	952	143
Accrued Liabilities	4,115	966
Advances	(47)	117
	5,020	1,226
Increase In Working Capital	$ 7,694	$ 2,018

The accompanying notes are an integral part of these financial statements.

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NOTES TO FINANCIAL STATEMENTS

NOTE 1 ORGANIZATION

The Bureau of Engraving and Printing (Bureau), Department of the Treasury, is the U. S. Government security printer. In accomplishing this mission, the Bureau designs and produces United States currency; postage stamps; Treasury obligations and other United States securities. It also advises and assists Federal agencies in the design and production of other Government documents that require counterfeit deterrence characteristics.

The Bureau operates on basic authorities conferred by the act of July 11, 1862, (12 Stat. 532; Also see 31 U.S.C. 5114) and other additional acts. A revolving fund, established in accordance with provisions of 31 U.S.C. 5142 on August 4, 1950, placed the Bureau on a completely reimbursable basis.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting -- Assets, liabilities, income, and expenses are recognized on the accrual basis of accounting.

Inventories -- Inventories are stated at lower of cost or market. Finished goods, work in process, and raw materials inventory items are valued at weighted average unit costs. The Bureau's financial statements do not reflect any currency finished goods, which are considered to be constructively delivered to the Federal Reserve Board (FRB) when placed in the "Federal Reserve Vault". The sale of currency notes and resultant account receivable from the Federal Reserve System are recorded upon delivery of notes to the Vault. This vault is located on Bureau premises and Bureau police personnel provide necessary security, pending final shipping instructions from FRB.

Plant and Equipment -- Plant machinery and equipment acquired on or before June 30, 1950, are stated at appraised values as of that date. Additions since June 30, 1950, and all building improvements are valued at acquisition cost. The Act that established the Bureau of Engraving and Printing Fund specifically excluded from capitalization land and buildings occupied by the Bureau costing about $9,000,000. Also excluded are appropriated funds of about $7,184,000 for extraordinary uncapitalized building repairs and air conditioning. The Bureau capitalizes assets $1,000 and over which are expected to have useful lives in excess of 1 year. Repairs and maintenance are expensed.

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APPENDIX III

Depreciation -- Depreciation is computed under the straight-line method. The depreciation rates used are based on the following useful lives: 3 to 15 years for machinery and equipment; 3 to 9 years for motor vehicles; 10 years for office machines; 10 years for furniture and fixtures; and 3 to 20 years for building improvements. Alterations and renovations are generally amortized over a 3 year period. Because the Bureau's buildings were excluded from the revolving fund, there is no depreciation expense taken on these fixed assets.

Revenue -- In accordance with Public Law 95-81, dated July 31, 1977, the Bureau includes in its selling prices an amount in excess of cost which is used for financing capital improvements and for providing additional funds for working capital. The Bureau retains net income in order to meet future capital improvements and working capital requirements. Therefore, large cash balances may temporarily accumulate.

Pension Plan -- The employees of the Bureau are covered by the Civil Service Retirement System. As required by law, employees contribute 7 percent of their salaries to the plan with an equal amount contributed by the Bureau. The total pension expense for fiscal years 1983 and 1982 was $4,400,000 and $4,258,000 respectively.

NOTE 3 RESTATEMENT OF 1982 AMOUNTS

The fiscal year 1982 amounts have been restated to conform to the fiscal year 1983 statement presentation. Net income for FY 1982 has been restated to recognize unrecorded depreciation expense in the amount of $950,000.

NOTE 4 PRIOR PERIOD ADJUSTMENT

Beginning October 1, 1981, general and administrative costs which had previously been included in inventory costs were charged against revenues as a period expense. The cumulative effect resulting from this change in accounting principle from an unacceptable to an acceptable one was $1,174,000 and was determined by calculating the amount of general and administrative expenses included in inventory costs at September 30,1981.

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NOTE 5 ACCOUNTS RECEIVABLE

	(IN THOUSANDS) 1983	1982 (Unaudited)
Unbilled - Postal Service and Federal Agencies	$ 391	$ 3,245
Unbilled - Nongovernment	19	163
Postal Service and Federal Agencies	7,450	1,623
Federal Reserve and Nongovernment	8,589	7,519
Total	$16,449	$12,550

The Bureau does not establish an allowance for uncollectible accounts receivable because prior accounts receivable loss experience does not justify the need for an allowance.

NOTE 6 INVENTORIES

	(IN THOUSANDS) 1983	1982 (Unaudited)
Raw Materials and Supplies	$10,895	$17,069
Work in Process	12,317	6,772
Finished Goods - Postage Stamps and Other Regular Products	8,739	12,141
Finished Goods - Uncut Currency	2,537	1,144
Total	$34,488	$37,126

NOTE 7 FIXED ASSETS

	(IN THOUSANDS) 1983	1982 (Unaudited)
Plant Machinery and Equipment	$75,896	$67,022
Building Improvements	8,908	9,339
Office Machines	430	473
Motor Vehicles	335	356
Furniture and Fixtures	296	288
Subtotal	85,865	77,478
Less Accumulated Depreciation	46,932	43,323
Net	38,933	34,155
Construction in Progress	22,980	11,808
Total	$61,913	$45,963

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Construction in progress represents fixed assets which are not yet placed in service. This includes progress payments on made-to-order equipment.

NOTE 8 OTHER ASSETS

	(IN THOUSANDS) 1983	1982 (Unaudited)
Alterations - Plant and Equipment	$ 1,639	$ 4,101
Alterations - Work in Process	3,983	1,700
Experimental Equipment	-0-	2,595
Total	$ 5,622	$ 8,396

In September 1983, the above experimental equipment had a book value of $1,887,000 and was written off when it was determined that it would not be useable as planned.

NOTE 9 ACCRUED LIABILITIES

	(IN THOUSANDS) 1983	1982 (Unaudited)
Payroll	$ 3,349	$ 2,830
Accrued Leave	4,305	4,083
Federal Employees Compensation Act	2,768	2,131
Constructive Receipts	3,980	2,024
Other	2,576	1,795
Total	$16,978	$12,863

The accrued liability for the Federal Employees Compensation Act represents payments the Bureau will make to reimburse the U. S. Department of Labor for compensation paid to Bureau employees for injuries incurred on the job. The accrued liability for constructive receipts are payments the Bureau will make to suppliers and manufacturers for paper and fixed assets made to the Bureau's specifications although not yet received by the Bureau.

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NOTE 10 ADVANCES

	(IN THOUSANDS) 1983	1982 (Unaudited)
Bureau of the Public Debt - Alterations	$ 528	$ 575
Department of the Treasury - Imprest Funds	67	67
Total	$ 595	$ 642

The advance from the Bureau of the Public Debt is to install a security system and for alterations and renovations which the Bureau of Engraving and Printing (BEP) will make to elevators in that portion of the BEP Annex building occupied by Public Debt.

NOTE 11 COST OF GOODS SOLD

	(IN THOUSANDS) 1983		1982 (Unaudited)	
Finished Goods Beginning Inventory		$ 12,141		$ 5,750
Cost of Goods Manufactured:				
Beginning Work in Process	$ 6,772		$ 7,231	
Direct Materials	32,096		29,334	
Direct Labor	48,136		47,495	
Factory Overhead	49,957	136,961	46,576	130,636
Less Ending Work in Process		(12,317)		(6,772)
Cost of Goods Manufactured		124,644		123,864
Cost of Goods Available		136,785		129,614
Less Finished Goods Ending Inventory		(8,739)		(12,141)
Cost of Goods Sold		$128,046		$117,473

NOTE 12 GENERAL AND ADMINISTRATIVE COSTS

During fiscal years 1983 and 1982 general and administrative costs consisted of the following:

	(IN THOUSANDS) 1983	1982 (Unaudited)
Salaries	$ 7,169	$ 7,258
Employee Benefits	1,100	881
Professional and Other Services	2,477	1,898
Rents, Communications, and Utilities	548	552
Depreciation of Office Equipment	405	239
Other	590	677
Total	$ 12,289	$ 11,505

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NOTE 13 OTHER INCOME - NET

Other income includes sales from the Bureau's tour facility for medals, shredded currency, and uncut currency net of cost of sales. It also includes income from services associated with space in the Bureau's building occupied by the Bureau of Public Debt and other services net of cost. For fiscal years 1983 and 1982 it amounted to:

	(IN THOUSANDS) 1983	1982 (Unaudited)
Sales of Medals and Shredded Currency	$ 166	$ 62
Sales of Uncut Currency	1,744	4,513
	1,910	4,575
Less Cost of Medals and Uncut Currency	(1,431)	(3,409)
	479	1,166
Income from Fixed Services for Space	1,479	1,639
Income from Other Services	199	194
Less Cost of Miscellaneous Services	(1,678)	(1,833)
Other Income - Net	$ 479	$ 1,166

NOTE 14 MAJOR CUSTOMERS

A material part of the Bureau's business is dependent on two customers: The U.S. Postal Service and the Federal Reserve System. During fiscal years 1983 these customers accounted for $60,090,000 and $103,327,000 of revenues respectively. During fiscal year 1982 they accounted for $56,183,000 and $84,213,000 respectively.

NOTE 15 OUTSTANDING COMMITMENTS

Outstanding commitments with suppliers for undelivered purchase orders were $39,662,000 at September 30, 1983, and $15,572,000 at September 30, 1982.

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NOTE 16 PENDING LITIGATION

Currently, there is a class action Title VII discrimination complaint (Lewis v. Regan, D.D.C. Civ. No. 82-0918) where the class has not yet been certified. Although the complaint alleged discrimination against a broad based class of individuals and seeks backpay for all black, non-craft employees of the Bureau, plaintiffs latest pleadings have significantly limited the putative class. Any potential judgments resulting from pending or threatened litigation against the Bureau will be satisfied from the Federal government's permanent judgment appropriation. Furthermore, before a judicial determination on certification of the class and a refining of the substantive issues, an estimate of potential liability, if any, is not determinable.

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